

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

---

Compliance Review

# **Humboldt Unified School District No. 22**

Year Ended June 30, 2006

---



**Debra K. Davenport**  
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

## Accounting Services Division Staff

---

**Laura Miller**, Manager and Contact Person  
lmiller@azauditor.gov

**Amanda Winn**  
**Burim Gashi**

Copies of the Auditor General's reports are free.  
You may request them by contacting us at:

**Office of the Auditor General**  
**2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333**

Additionally, many of our reports can be found in electronic format at:

[www.azauditor.gov](http://www.azauditor.gov)



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

December 11, 2007

Governing Board  
Humboldt Unified School District No. 22  
8766 East Highway 69  
Prescott Valley, AZ 86314

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Heinfeld, Meech & Co., P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the Director of Finance in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport  
Auditor General

# TABLE OF CONTENTS



Introduction	1
Recommendation 1: The District's controls over competitive purchasing and expenditure processing should be improved	2
Recommendation 2: The District should establish stronger controls to ensure its accounting records are accurate	4
Recommendation 3: The District should ensure the accuracy of its student attendance records	5
Recommendation 4: The District's controls over cash and its bank accounts should be strengthened	6

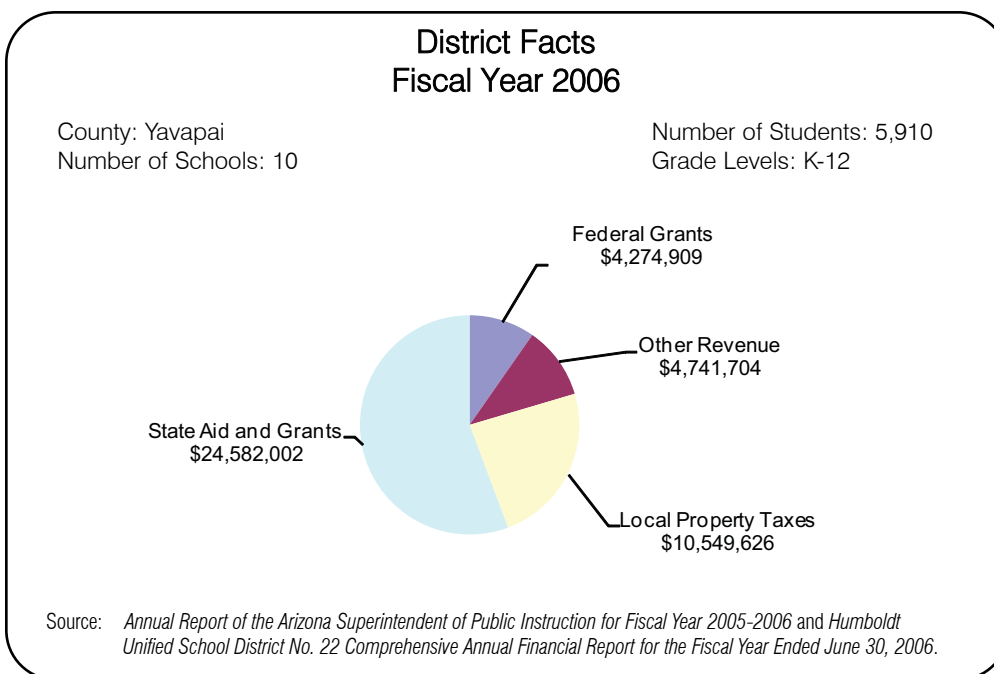


# INTRODUCTION

Humboldt Unified School District No. 22 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$44 million it received in fiscal year 2006 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



# The District's controls over competitive purchasing and expenditure processing should be improved

The District spends public monies to purchase goods and services, so it is essential that the District follow School District Procurement Rules and USFR guidelines designed to help ensure that the District receives the best possible value for the public monies it spends, and that its expenditures are appropriate, approved, and adequately supported. However, the District did not always follow such procedures. Specifically, the District did not always retain written documentation of the Governing

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

Board's determination that there was only one source for the required materials or services when sole source purchases were made. In addition, the District did not obtain bids or proposals, or oral or written price quotations for all purchases requiring them. Also, the District did not always retain the time- and date-stamped bidder envelopes or copies of the envelopes; did not obtain a written determination from the Governing Board that the use of competitive sealed bids was either not practicable or not advantageous to the District prior to issuing requests for proposals; and did not document why the vendor with the lowest quotation was not selected. Additionally, the District's Governing Board did not authorize a purchase made under a General Services Administration (GSA) contract or make a written determination that all criteria listed in Arizona Revised Statutes (A.R.S.) §15-213(J) were met.

Further, the District lacked controls to ensure that district monies were spent appropriately. For example, the District's Governing Board did not establish and maintain formal, written policies governing the use of credit cards. In addition, employees making credit card purchases were not clearly identified on the receipts, and the District did not always retain supporting documentation for credit card purchases. Finally, the District did not always retain hotel receipts to support travel expenditures, and reimbursements were not always within the maximum amounts established by the Arizona Department of Administration (ADOA).

## Recommendations

To strengthen controls over competitive purchasing and expenditures and to comply with School District Procurement Rules and USFR guidelines, the District should perform the following:

- Obtain and retain a written determination from the Governing Board that there is only one source for the required material, service, or construction item for all sole

source procurements. Sole source purchases should be avoided, except when no reasonable alternative source exists.

- Issue invitations for bids or requests for proposals for all purchases of construction, materials, or services that individually or in the aggregate exceed \$33,689 (the current threshold) and retain all supporting documentation including time- and date-stamped bidder envelopes.
- Obtain and retain a written determination from the Governing Board that the use of competitive sealed bidding is either not practicable or not advantageous to the District prior to issuing requests for proposals.
- Obtain and retain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written quotations from at least three vendors for purchases estimated to cost between \$15,000 and the amount requiring competitive sealed bids. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations. Also, if a vendor is selected for reasons other than the lowest price, the reasons should be fully documented and retained.
- Obtain and retain the Governing Board's authorization for all purchases made under current GSA contracts. The Governing Board must also determine in writing that all required criteria listed in A.R.S. §15-213(J) are met for a GSA contract before authorizing purchases under the contract.
- Establish Governing Board-approved written policies and procedures governing the use of district credit cards and provide the policies to authorized employees. These policies should specify purposes for which the cards may be used, dollar limits for charges, and require an effective accounting system to account for and control the cards. In addition, credit card billing statements should be compared to the supporting documentation to ensure that charges were appropriate, and employees using the credit cards should submit receipts to the business office and indicate the employee making the purchase on the receipt.
- Retain supporting documentation for all travel expenditures, such as receipts, invoices, and conference brochures, and ensure that travel expenditures are within the limits set forth by ADOA.

School District  
Procurement Rules  
provide the requirements  
for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

Guidelines for oral and written price quotations can be found on USFR Pages VI-G-8 and 9 and in USFR Memorandum No. 213.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

# The District should establish stronger controls to ensure its accounting records are accurate

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, the District must have strong internal controls to ensure the reliability of its accounting records. However, the District did not fully accomplish this objective. Specifically, the District did not always maintain accounting records in accordance with the USFR Chart of Accounts and loaned New School Facilities Fund monies, restricted for certain uses, to other funds. In addition, the expenditures reported on the District's annual financial

The District loaned over \$530,000 of New School Facilities Fund monies, which are restricted monies, to several other district funds.

report (AFR) did not agree with its accounting records for several funds, and the District incorrectly allocated additional state aid revenues to the Adjacent Ways Fund. Also, the District did not always record its share of intergovernmental agreement (IGA) expenses in a timely manner. Further, employees' salaries were not always properly allocated between the funds indicated in their contract or the contract did not indicate the correct funds to be used, and the District reported an incorrect amount on the Employer's Quarterly Federal Tax Return (Form 941). Finally, the District did not maintain an accurate and complete stewardship list and did not always record its capital assets at the items' actual costs.

## Recommendations

The following procedures can help the District record and report accurate financial information:

- Record all transactions in accordance with the USFR Chart of Accounts.
- Ensure that sufficient cash or budget capacity is available before making expenditures and that restricted monies are not commingled with unrestricted special revenue monies.
- Ensure revenues, expenditures, and fund balances reported on the AFR agree with the District's accounting records. The District should assign a second employee to review the AFR for accuracy before submitting it to ADE.
- Ensure that additional state aid revenue is properly apportioned among the District's funds.
- Record the District's share of IGA expenses in a timely manner.

USFR §III provides guidance for classifying financial transactions.

- Verify that employee contracts include the correct funds that employees should be paid from and that salaries are allocated based on employees' contracts. Also, a second employee should verify that the information reported on the District's Form 941 is accurate.
- Maintain an accurate and complete stewardship list and ensure all capital assets are recorded at actual cost, including ancillary charges such as sales taxes; freight and delivery charges; installation, assembly and testing charges; and other incidental costs.

## The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to help ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not always maintain accurate student attendance records as entry and withdrawal dates in the computerized attendance system did not always agree to supporting documentation. In addition, the District included noninstructional time in its attendance submitted to ADE. Further, the District did not always properly report partial-day absences for kindergarten, elementary, and middle school students, and attendance minutes were not always properly reported for high school students.

The District may not have received the appropriate amount of funding as membership and absences were not always reported correctly.

## Recommendations

To help ensure that student membership is recorded and reported accurately to ADE, a second employee should verify that entry and withdrawal dates recorded in the computerized attendance system agree to entry and withdrawal forms and teachers' attendance registers. In addition, the District should ensure that noninstructional time is not included in its attendance submitted to ADE. Further, the District should properly report partial-day absences for kindergarten, elementary, and middle school students, and ensure that absences for high school students are recorded in accordance with the chart provided in ADE's *Instructions for Required Reports*.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

# The District's controls over cash and its bank accounts should be strengthened

Poor cash controls left district and student activities monies susceptible to loss, theft, or misuse.

The District receives cash from various sources, including auxiliary operations and student activities. Because of the relatively high risk associated with cash transactions, the District should maintain effective internal controls to safeguard cash, ensure that it is promptly deposited, and used appropriately. However, the District did not have adequate controls over its cash receipts and disbursements. Specifically, the District did not always prepare cash collection reports that reconciled sales to cash collected and did not always deposit cash receipts in a timely manner. In addition, the District did not always retain documentation to support that student activities disbursements were properly authorized by or on behalf of the student members of the club, and the District maintained an invalid student club. Further, disbursements from the Maintenance and Operation (M&O) Fund revolving bank account were not always supported by documentation.

## Recommendations

To help strengthen controls over cash, the District must prepare activity or cash collection reports, as applicable, to document sales and reconcile cash collected to cash receipt forms or tickets. For events where it is not practical to determine the items sold, such as bake sales, clubs must still prepare a cash collection report to document cash collected. In addition, all cash receipts should be deposited intact daily when significant, or at least weekly, in the appropriate district bank account. Also, the District should prepare and retain supporting documentation, including student approval, purchase orders, receiving reports, and vendor invoices, to ensure student activities disbursements are properly approved and supported, and the District should close invalid student club accounts and transfer any remaining balances to the appropriate district fund. Finally, the District should prepare and retain documentation, such as check requests, vendor invoices, and other documentation to support disbursements from the M&O Fund revolving bank account.

A sample form to record cash collections and reconcile sales to cash collected can be found on USFR page X-H-21.